

AUDIT COMMITTEE

Article VII

Section ##. Audit Committee

The Audit Committee shall be an independent body consisting of five members. To ensure its independence, the Audit Committee shall be composed of two members of the City Council and three members of the public. The two Councilmembers shall be appointed by the Council, one of whom shall serve as Chair of the Audit Committee. Two public members of the Audit Committee shall be appointed by the City Manager with Council confirmation and one shall be appointed by the Council. Public members of the Audit Committee shall possess the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes but is not limited to knowledge of accounting, auditing and financial reporting. The public members of the Audit Committee shall serve without compensation for terms of [four] years and until their successors have been appointed and qualified. Councilmembers appointed to the Audit Committee shall serve terms of two years. Members of the Audit Committee are limited to two full consecutive terms, with one term intervening before they become eligible for reappointment. Notwithstanding any other provision of this section, appointments shall be made so that not more than one term of office shall expire in any one year.

The Audit Committee shall have oversight responsibility regarding the City's accounting, auditing, internal controls and any other financial or business practices required by this Charter or City ordinance. The Audit Committee shall be responsible for directing and reviewing the work of the Internal Auditor and the Internal Auditor shall report directly to the Audit Committee. The Audit Committee shall recommend the annual compensation of the Internal Auditor and annual budget of the Office of the Internal Auditor to the Council and shall be responsible for an annual performance review of the Internal Auditor. The Audit Committee shall recommend to the Council the retention of the City's outside audit firm and, when appropriate, the removal of such firm. The Audit Committee shall monitor the engagement of the City's outside auditor and resolve all disputes between City management and the outside auditor with regard to the

presentation of the City's annual financial reports. All such disputes shall be reported to the Council. The Council shall specify the powers and duties of the Audit Committee by ordinance.

Proposed language to be added to Municipal Code:

The Audit Committee shall meet at least quarterly and shall have the following duties:

- (a) Review, discuss and monitor the City's annual audited financial statements and any periodic financial statements with the City Manager, the Internal Auditor and the outside auditors.
- (b) Based on its review and discussions with management and the outside auditors, recommend to the City Council whether the City's audited financial statements should be received by the City Council.
- (c) Monitor changes to the City's auditing and accounting principles and practices as suggested by the outside auditors or management.
- (d) Monitor the effectiveness of the City's internal controls disclosure controls and procedures in consultation with the City Manager, Internal Auditor and outside auditors.
- (e) Review, discuss and monitor with the City Manager and the independent auditors:
 - (1) Any material financial or non-financial arrangements that do not appear on the City's financial statements;
 - (2) Any transactions or courses of dealing with parties related to the City that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and that are relevant to an understanding of the City's financial statements;
 - (3) Material financial risks that are designated as such by management or the independent auditors.
- (f) Establish procedures for the receipt, retention and treatment of complaints received by the Audit Committee regarding misuse of City assets; and the confidential, anonymous submission by City's employees or members of the public of concerns regarding such misuse.
- (g) Discuss and with the outside auditors annually or more often if necessary, a report by the outside auditors describing (i) the outside auditors' internal quality-control procedures, and (ii) any material issues raised by the most recent internal quality control review or peer review of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding

five years, respecting one or more audits carried out by the outside auditors, and the steps taken to address those issues.

- (h) Review the report by the outside auditors concerning: (i) all critical accounting policies and practices to be used; (ii) any deviation from GAAP in the City's financial statements; and (iii) any other material written communications between the independent auditors and the City's management.
- (i) Review, discuss and monitor with the outside auditors annually or more often if deemed necessary by the Audit Committee, all relationships the outside auditors have with the City in order to evaluate the outside auditors' continued independence, and receive from the outside auditors on an annual basis a written statement regarding the auditors' independence.

The Audit Committee shall have no authority or responsibility to prepare or direct the preparation of the City's financial statements.

Other Charter Sections that need to be looked at to allow these changes: 11.1, 41, 43, 111